GartnerGroup

Getting TCO right is worth the effort

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ONE OF the hottest topics in the computer industry is Total Cost of Ownership. But when it comes to distributed computing, it often seems the initials, TCO, stand for Total Chaos Overall.

For several years PCs and LANs have been breeding faster than rabbits. More than half of all IT spending is outside the IT department, making it difficult to determine the true TCO of the systems.

GartnerGroup analyst Bill Kirwin, who saw this coming 10 years ago, developed a TCO model for distributed computing.

However, it wasn't until last year that the concept of TCO seriously started to be used by most PC vendors, who initially had no interest in the idea.

When the vendor community accepts a new buzz word and starts using it in their marketing, awareness immediately increases.

When Microsoft has Bill Gates talking about TCO in its annual report, you know the concept has been accepted in the industry.

TCO is hot. Last year it was endorsed by the majority of PC vendors. A group of 12 of the largest companies, including Microsoft and IBM, sponsored a project to take GartnerGroup's TCO model one step further.

A software company called Interpose, with extensive expertise in the TCO area, was acquired by GartnerGroup and renamed Gartner Software. It was selected to develop the software for this new TCO model.

Released in April 1998, it consists of three components:

- TCO Analyst — for vendors and consultants working in the PC/LAN area, which allows vendors to show users the TCO of their solution.
- TCO Manager — helps users understand three basic TCO issues for their distributed computing environment: Where am I (actual)? How do I compare (typical)? Where could I be (target)?
- TCO Distributed Computing Assessment — an extension to the first two components.

A Gartner measurement analyst further assesses the TCO, in light of specific business requirements. This includes analysing the processes, service level agreements, and end user perceptions and also specific recommendations on what the organisation needs to do to improve its performance over the next six to nine months.

If done on a regular basis it becomes part of a continuous improvement program.

With all the vendor and media hype, and IT spending over the top, user organisations have become interested in TCO.

However, determining your TCO is not a simple process. Let's look at a typical TCO for a low to medium complexity environment.

The TCO of such an environment is typically split into two components: direct cost (budgeted) of 55 per cent versus indirect cost (unbudgeted) of 45 per cent.

The direct cost contains the following elements — hardware and software (19 per cent), management (16 per cent), support (11 per cent), communications (6 per cent) and development (3 per cent).

The indirect cost contains the following elements — end user IS (35 per cent), downtime (10 per cent).

We have found there is a relation between the complexity of the environment and the TCO. The higher the complexity, the higher the TCO.

Complexity is determined by three things:

- The number and distribution of applications (such as enterprise, workgroup, or personal productivity).
- The technologies employed (number of platforms, level of mobile computing, split logic and groupware applications, system redundancy, etc).
- User characteristics (dispersion into centralised or remote sites, service level availability and responsiveness, and so on).

Getting TCO right is a difficult process, but well worth the effort. It is crucial for long term control over direct and indirect costs.

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